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Ginnie Mae Multifamily Training

Module IIIb – Cash Management

Ginnie Mae Multifamily Issuer Training

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Agenda

Cash Management
Agenda

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- Introduction
 - Overview
 - Goals
- Cash Management
 - Responsibilities
 - Reporting
- Conclusion
 - Questions
 - Suggestions



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Introduction

The Cash Management training session will cover the various types of funds an Issuer must manage and the custodial bank account requirements of each. We will go over the requirements to be met while transferring custodial funds to the various accounts. Further, we will discuss the methods of funding collection shortfalls and the issuer's responsibility to pay security holders.

Cash Management
Introduction

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- Ginnie Mae Cash Management System
 - Types of custodial funds
 - Custodial account requirements
- Test of Expected P&I
- Reconciliation of Mortgage Collateral to Securities Outstanding
- Funding P&I Shortfalls
 - Corporate Advances
 - Excess Funds
 - Pool Advance Agreement
- Other

As part of the Cash Management training session, we will also explain how an issuer performs the following calculations:

1. Test of Expected P&I
2. Reconciliation of Mortgage Collateral to Securities Outstanding



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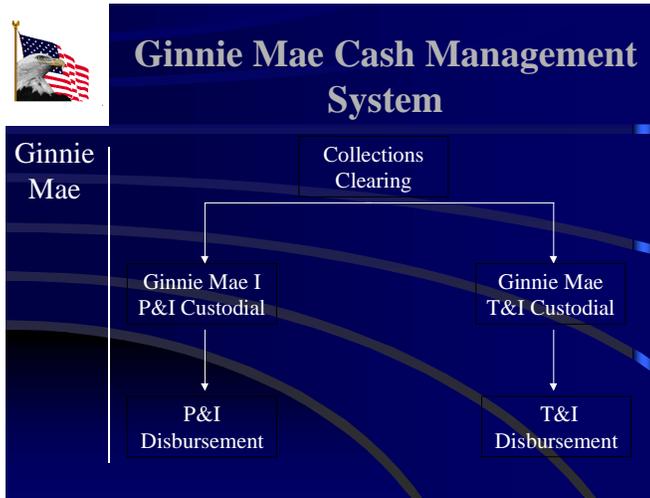
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Ginnie Mae Cash Management System

The various cash management accounts to be covered are:

1. Collections Clearing Account
2. P&I Custodial Bank Account
3. P&I Disbursement Account
4. T&I Custodial Bank Account



Collections Clearing Account: Ginnie Mae allows the use of a collections clearing account for expeditious processing and depositing of daily receipts, which may include P&I and T&I funds for all mortgage loans serviced by the issuer. If such an account is used, Ginnie Mae requires funds relating to mortgages in Ginnie Mae pools be transferred to Ginnie Mae P&I and T&I custodial accounts within one business day of receipt unless a written waiver letter has been obtained from Ginnie Mae.

P&I Custodial Bank Account: Ginnie Mae requires that the P&I portion of mortgage loan payments for each Ginnie Mae pool be deposited into a single non-interest bearing Ginnie Mae P&I custodial account. These funds belong to the related Ginnie Mae MBS holders, with Ginnie Mae as a guarantor. These P&I custodial accounts may contain funds for more than one pool provided that the issuer maintains separate accounting records for each pool.

P&I Disbursement Account: Many issuers use a separate P&I disbursement account to make payments to security holders. Funds are transferred to the P&I disbursement account before the remittance due date. Each issuer ID number may only use one disbursement account.

T&I Custodial Bank Account: Ginnie Mae requires the T&I portion of loan payments for each Ginnie Mae pool be deposited into a single T&I custodial account. These funds belong to the related mortgagor. The account may contain funds for more than one pool provided that the issuer maintains separate accounting records for each pool. The issuer must also maintain individual account records for each loan.



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Transferring Custodial Funds

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Collections Clearing

Ginnie Mae P&I Custodial

Ginnie Mae T&I Custodial

Transferring Custodial Funds

A mortgagor's loan payment is usually composed of two items:

- 1) Monthly principal and interest payment (P&I)
- 2) Monthly tax and insurance payment (T&I)

Ginnie Mae allows the use of a collections clearing account for expedient processing and deposit of daily collections.

Ginnie Mae requires mortgage loan payments for a particular Ginnie Mae pool to be deposited into a single non-interest bearing P&I custodial bank account. These funds belong to the related Ginnie Mae MBS holders with Ginnie Mae as the guarantor.

Payments by mortgagors for taxes and insurance are deposited in to a separate T&I custodial account, which may be interest bearing. Such funds belong to the related mortgagors.

Ginnie Mae also allows the use of separate P&I disbursement clearing accounts for Ginnie Mae I issuers. Disbursements from each separate account are limited to payments for a separate Issuer ID number.



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Collections Clearing Account

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- Optional
- Ginnie Mae and Non-Ginnie Mae funds
- Transfer to P&I and T&I accounts within 1 business day
- Recover corporate advances provided excess funds restored to custodial account
- Zero balance account

Collections Clearing Account

Ginnie Mae allows the use of a collections clearing account for expeditious processing and depositing of daily receipts, which may include P&I and T&I funds for all mortgage loans serviced by the issuer.

If such an account is used, Ginnie Mae requires funds relating to mortgages in Ginnie Mae pools be transferred to Ginnie Mae P&I and T&I custodial accounts within one business day of receipt unless a written waiver letter has been obtained from Ginnie Mae. The collections clearing account may be used to process funds for all investors, not just those relating to Ginnie Mae.

Clearing Account at a Different Bank: If the issuer's collections clearing account is at a bank different than the P&I and T&I custodial bank, Ginnie Mae requires custodial funds to be transferred within one business day. Although the most common method of transfer is by wire, this requirement is met if a check payable to the custodial account is mailed within one business day of receipt. If the collections clearing and custodial accounts are at the same bank, the funds are to be deposited into the custodial account within one business day of receipt into the collection clearing account in order for the issuer to be in compliance.

Recovery of Corporate Advances Directly from Collections Clearing Account:

Issuers may recover corporate advances directly from their collections clearing account provided that excess funds are restored to the custodial account prior to any recovery of corporate advances. This may be done if the issuer maintains an automated system with an adequate audit trail.



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P&I Custodial Bank Account Requirements

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- Ginnie Mae Funds Only
- Single non-interest bearing custodial account
- May contain funds for more than one pool
- Form HUD 11709 must exist for each account
- Bank reconciliation completed timely
- Meet bank rating requirements

P&I Custodial Bank Account

Ginnie Mae requires that the P&I portion of mortgage loan payments for each Ginnie Mae pool be deposited into a single non-interest bearing Ginnie Mae P&I custodial account.

These P&I custodial accounts may contain funds for more than one pool provided that the issuer maintains separate accounting records for each pool. The issuer must maintain a detail book balance by pool, which tracks the collection and disbursements for each pool using a single account.

This detail must list the ending principal and interest book balance for each pool, at the month-end cutoff date. This book balance is then used in the Ginnie Mae monthly pool accounting reports.

A form HUD 11709 (*refer to Exhibit I*) is required and must exist for each P&I custodial bank account. The form HUD 11709 is the Letter of Agreement between the issuer and the depository institution, and establishes Ginnie Mae's right to access the funds in the account on demand and without notice.

Ginnie Mae custodial funds may not be comingled with non-Ginnie Mae funds. For example, an issuer may not deposit Ginnie Mae and non-Ginnie Mae (i.e., FNMA, FHLMC, private investors, etc.) mortgage receipts into the same custodial account. Funds for one Ginnie Mae issuer ID number may not be comingled with funds for another Ginnie Mae issuer ID.

Monies in the P&I custodial account are monthly mortgage payments, prepayments, proceeds from foreclosure or repossession sales, any payments received in lieu of foreclosure or repossession sales, payment of excess funds, advances, mortgage or title insurance and guaranty claim settlement proceeds, hazard insurance, etc.



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P&I Reconciliation

Sum of 11710As, Sections 5B2 and 5B3	=	11710D "Other than T&I Funds"	=	P&I Bank Reconciliation
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P&I Reconciliation

Reconciliation of:

- Internal servicing records book balance;
- Bank account balance;
- The balance at cutoff of the HUD 11710A Section 5, Block B-2 and Section 5, Block B-3;
- Sum of the test of expected P&I plus HUD 11710A Section 5, Block B-3,
- "Other than T&I Funds" reported on form HUD 11710D

The sum of the "Test of Expected P&I" for each pool plus the amount reported on form HUD 11710A "Other" Section 5, Block B-3 for all pools should equal the amount reported in Section 3, form HUD 11710D, as "Total Funds Other Than T&I" and agree to the reconciled bank accounts and internal servicing records book balance. Adjustments may be required to accomplish this reconciliation process. These adjustments are reflected on each month's bank reconciliation and cleared in the following month.

Adjustments typically arise due to permanent P&I shortfalls. Permanent P&I shortfalls must be funded from corporate funds and are not covered by a pool advance agreement. These amounts are expenses to the issuer and are not recoverable.

Permanent P&I shortfalls that are required to be funded by the issuer include:

- ◆ Curtailment adjustment (additional principal adjustments).
- ◆ Interest shortfalls on payoffs.
- ◆ Principal and interest shortfalls on loan repurchases due to foreclosure, substitutions and others.

These amounts are not required to be deposited until the negotiable date of payment for Ginnie Mae I pools. Accordingly, these adjustments will be reconciling items on the bank reconciliation when the related funds are deposited after the month-end cutoff. The reconciling items should clear by the end of the following month.

Refer to Exhibit 2 for a sample P&I Bank Account Reconciliation.



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Bank Rating Requirements

Ginnie Mae's objective is to ensure that issuers maintain Ginnie Mae custodial bank accounts in depository institutions that comply with Ginnie Mae bank requirements. This limits Ginnie Mae's exposure to loss of custodial funds due to bank failure.



Custodial Bank Account
Bank Rating Requirements

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- Not required if:
 - Custodial funds are maintained in an appropriate FHLB
 - FIC is less than \$100,000 (P&I) or
 - Account balance is less than \$100,000 (T&I)
- Thompson Bankwatch: a rating of "C" or better
- Moody's: A rating of P-3 or better
- S&P: A-3 or better
- IDC: 75 or better
- Sheshunoff: 47 or better

All custodial accounts must be maintained in a federally insured financial institution that meets Ginnie Mae's bank rating requirements. The rating requirements are:

- Thompson Bankwatch: a rating of "C" or better
- Moody's: A rating of P-3 or better (i.e., P-1 or P-2) (short-term bank deposits)
- Standard's & Poor's: a rating of A-3 or better (i.e., A-1 or A-2) (short-term CDs)

If custodial accounts are maintained with a funds custodian rated by one or more agencies named above, Ginnie Mae requires the following:

1. If rated by all three agencies, the funds custodian must meet any two acceptable ratings.
2. If rated by two agencies, the funds custodian must meet both acceptable ratings.
3. If rated by only one agency, the funds custodian must meet that agency's acceptable rating.

If the funds custodian is not rated by any of the agencies listed above, Ginnie Mae will require that it meet minimally acceptable ratings from one of the following agencies:

- LACE Financial Corp.: a rating of "C" or better
- Cates Bank Rating service: a rating of 3.5 or better
- IDC Financial Publishing: a rating of 75 or better (Rank of Financial Ratio)
- Sheshunoff Rating Services: a rating of 47 or better



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P&I Disbursement Account Requirements

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- May use separate disbursement account
- Non-interest bearing account
- Zero balance account
- Ginnie Mae Funds only
- Form HUD 11709 must exist for each account
- Only one Ginnie Mae Issuer ID# per account

P&I Disbursement Account

The earlier section on the Ginnie Mae P&I Custodial Account discusses payments to security holders directly from the P&I account itself. Many issuers, however, use a separate P&I disbursement account to make payments to holders. Funds are transferred to the P&I disbursement account before the negotiable date of payment. Each Issuer ID number may only use one disbursement account.

Disbursements from a Ginnie Mae P&I disbursement account are limited to Ginnie Mae funds; comingling with non-Ginnie Mae funds is prohibited. Funds for one Ginnie Mae issuer ID number may not be comingled with funds for another Ginnie Mae issuer ID.

The P&I disbursement account should be a zero balance account, however, it is acceptable for the issuer to keep an amount in the account as a minimum balance or to keep unrecovered corporate advances in the P&I disbursement account. After subtracting these amounts, and any outstanding security holder checks, the balance of the P&I disbursement account must be zero.

Ginnie Mae requires security holders' checks to be delivered by the fifteenth of each month. If a check remains outstanding for a period greater than six months, it must be removed from the account and sent to the CPTA within 30 days of the close of the six-month period.

P&I disbursement accounts must be maintained at a federally insured financial institution that meets Ginnie Mae bank rating requirements. Also, an executed form HUD 11709 is required to be filed with Ginnie Mae for the disbursement account.



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T&I Custodial Bank Account Requirements

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- Ginnie Mae funds only
- Interest bearing account
- Form HUD 11720 must exist for each account
- Bank reconciliation completed timely
- Meet bank rating requirements

T&I Custodial Bank Account

Escrow custodial accounts include all funds collected to cover expenses to be paid under the mortgage, including, but not limited to, taxes, special assessments, ground rents, other charges that are or may become first liens on the mortgaged property, hazard insurance premiums, and mortgage insurance premiums. All collections of funds of these types for an individual pool must be deposited into a single escrow account.

Ginnie Mae requires the T&I portion of loan payments for each Ginnie Mae pool to be deposited in a single Ginnie Mae T&I custodial account, which may be interest bearing. These funds belong to the related mortgagor. The account may contain funds for more than one pool provided that the issuer maintains separate accounting records for each pool. The issuer must also maintain individual accounting records for each loan.

Ginnie Mae funds may not be comingled with non-Ginnie Mae funds. For example, an issuer may not deposit Ginnie Mae and non-Ginnie Mae (i.e., FNMA, FHLMC, private investors, etc.) mortgage receipts into the same custodial account. Funds for one Ginnie Mae issuer ID number may not be comingled with funds for another Ginnie Mae issuer ID.

A form HUD 11720 (*refer to Exhibit 3*) must exist for each T&I Custodial Bank Account. The form HUD 11720 is the Letter of Agreement between the issuer and the depositor, establishing Ginnie Mae's right to access the funds in the account on demand and without notice.



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T&I Reconciliation

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T&I Funds

Sum of 11710As, Sections 5B1	=	11710D "T&I Funds"	=	T&I Bank Reconciliation
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T&I Custodial Bank Account Bank Reconciliations

The internal servicing record T&I book balance must reconcile each month-end to the following:

- sum of reconciled bank balance; and
- sum of 11710A's Section 5, Block B-1 amounts for all pools

T&I accounts must be reconciled by the end of the following month; reconciling items must clear within 30 days from the date of the bank reconciliation.

The sum of the figures reported in Section 5, Block B-1 for all form HUD 11710A reports must equal the "Total T&I Funds" reported in Section 2 of the Issuer's Monthly Accounting Summary, form HUD 11710D.

Reporting of Taxes and Insurance: The figure reported in form HUD 11710A Section 5, Block B-1 should be the total amount of tax insurance funds actually held in the custodial account for all the mortgages in the pool as of the Ginnie Mae month-end cutoff date.

Refer to Exhibit 4 for a sample T&I Custodial Bank Account Reconciliation.



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Test of Expected P&I

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- Performed by Issuer
- Provides minimum dollar amount in P&I account
- Tolerance:
 - \$1.00 per loan per pool
 - Maximum of \$50.00 per pool
- Cash shortage funded by issuer

Test of Expected P&I

The test of Expected P&I at month-end cutoff is performed by the issuer to establish a minimum dollar amount that Ginnie Mae would expect to find in the P&I account for any particular pool as of a given reporting date. This test is performed to check the accuracy of the P&I balance reported in form HUD 11710A Section 5, Block B-2 for each pool, and establish a tracking point for the cash flow method of tracking cashbook balances.

Ginnie Mae allows the issuer a tolerance of \$1.00 per loan per pool up to a maximum of \$50.00 per pool between the amount reported and the Expected Balance per the Test of Expected P&I. Any amounts outside the tolerance must be researched and adjusted monthly.

The Test of Expected P&I is only accurate when the pool is in balance. This means that the mortgage collateral reconciles to the securities outstanding. At least once a year the issuer must adjust to a zero balance, any differences between the Reconciliation of Mortgage Collateral to Securities Outstanding. When an adjustment is made to the Securities Outstanding, so as to reconcile to the Mortgage Collateral, the issuer must adjust the corresponding cash amounts and the amount reported by either:

- a. fully funding any shortages to the account if a shortage occurs, or
- b. transferring any overages out of the custodial account or reporting the cash overage in Section 5, Block B-3 when an overage occurs.

Any cash shortage determined by the test must be fully funded by the issuer using its own corporate funds, even if the pool is over-collateralized. If the pool is over-collateralized, the funds can be recovered when there is an unscheduled recovery of principal (i.e., loan liquidation or additional principal). Funds that are greater than the Expected Balance per the Test of Expected P&I, which the issuer chooses to leave in the bank account, should be reported in Section 5, Block B-3, of form HUD 11710A for each pool.

Issuers should not use the calculated “Test of Expected P&I” figure to determine the amount to be reported on the 11710A report. The expected P&I calculation is only used to test the amount reported by the issuer. Issuer must report the actual amount of cash for each pool on the form HUD 11710A.



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Reconciliation of Mortgage Collateral to Securities Outstanding

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- Pool of loan(s) is collateral for securities
- Overcollateralization
- Undercollateralization

Reconciliation of Mortgage Collateral to Securities Outstanding

The Ginnie Mae MBS program is based on the concept of a “pool” of loan(s) being used as collateral for securities issued against that pool. Any principal amounts distributed to the security holders should correspond to principal amount to the pooled loans.

Issuers are responsible for maintaining control over this relationship, which can be achieved through the reconciliation of the pool to loans to securities outstanding. This reconciliation is known in the industry as the Reconciliation of Mortgage Collateral to Securities Outstanding.

Overcollateralization

If the adjusted pool principal balance is larger than the securities balance, the pool is overcollateralized. Overcollateralized amounts must also be funded in the P&I custodial account. These funds are not part of the monthly calculation of the corporate advance. These funds have already been passed through to security holders and can not be recovered by the issuer in the advance recovery process after the remittance.

Undercollateralization

If the adjusted pool principal balance is less than the securities balance, the pool is undercollateralized. Principal must be passed through to security holders to reduce the securities balance. Issuers must fund all undercollateralized pools outside of the tolerance level. The tolerance range is \$1.00 for each loan in the pool, up to a maximum of \$50.00 per pool. Undercollateralized amounts must be deposited in the P&I custodial account and passed through to the security holders in the month following the month of the Reconciliation.

All adjustments for over and undercollateralizations are reported in form HUD 11710A Section 2, Block D, “Other” of form HUD 11710A.

As noted above, recovery of these funds can only occur in conjunction with an unscheduled recovery of principal. At the same time, an adjustment is made to bring the pool into balance in Section 2, Block D, “Other” of form HUD 11710A.



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P&I Collection Shortfalls

Temporary Shortfalls

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- Late payments from Mortgagor
- Non-sufficient funds check
- Incorrect advance calculation

Temporary Shortfalls

There must be sufficient funds on deposit in the bank account to pay security holders by the appropriate due date. The issuer has three options for funding a temporary shortfall:

- a. corporate advances without using excess funds
- b. corporate advances using excess funds
- c. pool advance agreement

Mortgage collections during a given month may be insufficient to cover the full amount of required security holder payments due to delinquencies in mortgagor payments. Temporary shortfalls may be recovered if the delinquent payments are made by the mortgagors.

Examples of Temporary Shortfalls:

Late payments from Mortgagor - monthly payments that have not been received from the mortgagor in a timely fashion

Non-sufficient funds check – a mortgagor check returned for non-sufficient funds

Incorrect advance calculation – failure to calculate accurately the necessary corporate advance using delinquent and prepaid loan amounts



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Non-Recoverable Corporate Advances

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- Permanent shortfalls
 - Curtailment adjustments
 - Loan payoffs
 - Foreclosure liquidations
 - T&I shortfalls

Non-Recoverable Corporate Advances

Non-recoverable corporate expenses are made to fund shortfalls and losses. A permanent shortfall may result when a loan is removed from a pool or a curtailment adjustment is made on an additional principal payment. The shortfalls must be deposited to the P&I or T&I custodial account before disbursement to the security holder or payee.

Examples of non-recoverable corporate expenses are as follows:

Curtailment Adjustments on Additional Principal Payments - If a borrower makes an additional principal payment and, as a result of the payment, the reconciliation between the collateral and the securities goes out of balance, the issuer must fund the amount in order to keep the collateral and securities in balance.

Loan Payoffs - The difference between the amount collected by the issuer and the amount paid to security holders. For example, if a loan pays off on the tenth of the month and nine days of interest is collected, corporate funds must be deposited to cover the shortfall from the ninth to the end of the month.

Foreclosure Liquidations - After a loan is foreclosed and all claim payments have been received, any shortfall between the amount received and amount due security holders must be funded by the issuer.

T&I Shortfalls - When a loan is removed from a pool and a shortage exists in the escrow account, the recoverable corporate advance must be replaced with a permanent corporate advance if the issuer tracks recoverable corporate advances in any manner except loan-level tracking.



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Any Shortfall Due In Custodial Account By...

- Ginnie Mae
- #### Due Dates for Security Holder Payments
- Ginnie Mae I Pools
 - Electronic Transfer
 - 15th calendar day if business day. If not, transfer completed next business day
 - Checks
 - 15th calendar day if business day. If not, received no later than last business day prior to the 15th

Security Holder Payment Methods and Due Dates

There must be sufficient funds on deposit in the bank account to pay security holders by the appropriate due date (or negotiable date of the checks, if earlier, for Ginnie Mae I pools).

Security holders are guaranteed to receive scheduled principal and interest each month, regardless of actual collections on the loans in the pool. Issuers must remit all payments due to security holders such that security holders will receive their installment as follows:

Electronic Transfer: must be completed by the 15th calendar day of the month if the 15th is a business day. If the 15th calendar day is not a business day, the transfer must be completed by 1:00 PM Eastern Time on the first business day following the 15th calendar day of the month.

Payment by Check: must be received no later than the 15th calendar day following the reporting month. If the 15th calendar day falls on a weekend or holiday, the payment must be received no later than the last business day prior to the 15th.



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Funding P&I Shortfalls

Methods of Funding Shortfalls

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- Corporate Advances
 - Uses Issuer funds
- Excess Funds Agreement
 - Minimizes use of Issuer funds
 - Guide 5500.3 Appendix VI - 8
- Pool Advance Agreement
 - Uses Bank funds
 - Guide 5500.3 Appendix VI - 1

Methods of Funding P & I Shortfalls

The issuer has three options for funding a temporary P&I shortfall:

- a. Corporate Advances Without Using Excess Funds;
- b. Corporate Advances Using Excess Funds; and
- c. Pool Advance Agreement.

Corporate advances – Whenever mortgage collections during a given month are insufficient to cover the full amount of payments due securities holders on the 15th, the issuer must advance corporate funds to cover the payments. There must always be sufficient funds on deposit in the appropriate Custodial account to cover securities holders' remittances on or before the negotiable date of the remittances and never later than the 15th for Ginnie Mae I pools.

Excess funds – In lieu of advancing corporate funds, the issuer may use excess P&I funds attributable to one pool to cover shortages in other pools sharing the same Custodial account. Excess funds are defined as unscheduled recoveries of principal (such as curtailments, partial and final claim settlements of mortgage insurance or guarantee benefits, and full loan payoffs) and early receipts of scheduled P&I (prepayments).

Pool Advance Agreements – Under the terms of the Pool Advance Agreement, the financial institution which holds pool P&I funds, rather than the issuer, is obligated to advance funds to cover payments to securities holders. The issuer must receive Ginnie Mae's written consent to use this agreement before the terms of the agreement may be implemented.



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Funding P&I Shortfalls *Corporate Advances*

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- Timing of advances
 - Ginnie Mae I
- Recovery of corporate advances
 - Only after excess funds returned
- Documentation of advances

Recoverable Corporate Advances

Whenever mortgage collections during a given month are insufficient to cover the payments due security holders, the issuer must advance corporate funds to cover the payments.

In lieu of advancing corporate funds, the issuer may use excess P&I funds attributable to one pool to cover shortages in other pools sharing the same custodial account. Any additional amount still needed once excess funds have been used must come from the issuer's corporate funds.

Sufficient funds must be on deposit in the appropriate account to cover security holders' remittances on or before the date of the remittances. This should never occur later than the 15th calendar day for Ginnie Mae I pools. This advance can be recovered by removing subsequent collections from the P&I custodial account until the advance is fully recovered.

The issuer must replace in the P&I custodial account excess funds used to make advances during a given month (a) in time to pay the funds to the security holders in the subsequent month, pursuant to the terms of the applicable Guaranty Agreement, and (b) before the issuer recovers advances made from its own funds or pursuant to a Pool Advance Agreement.

The issuer is liable to Ginnie Mae at all times for the restitution of any excess funds withdrawn to cover advances. The issuer's obligation to reimburse Ginnie Mae will remain in effect even if Ginnie Mae declares the issuer in default under its Guaranty Agreement and terminates its issuer status.

Corporate advances must be calculated on a custodial account level if the issuer uses a separate disbursement account. The funds must be transferred to the disbursement account no later than the negotiable date of the check. The issuer must document its advances with copies of advance calculations.



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Corporate Advances – Ginnie Mae I

Sufficient funds must be in the appropriate bank account on the appropriate date. If the issuer does not use excess funds, it must reserve certain funds in the bank account in calculating the amount of Corporate advance needed, as follows:

Funding P&I Shortfalls	
Corporate Advances - Ginnie Mae I	
P&I Bank balance at negotiable date	\$ X.XX,XXX
Less:	
- Undelivered security holder checks plus outstanding checks from prior months	XX,XXX
- Additional principal payments not passed through until the following month	XX,XXX
- Liquidations not passed through until the following month	XX,XXX
- Prepaid installments	XX,XXX
- Guaranty fees owed to Ginnie Mae	XX,XXX
Adjusted bank balance	\$ X,XXX,XXX
Amount due security holders	\$ X,XXX,XXX
Overage (Shortage)	\$ X,XXX,XXX

P&I bank balance at negotiable date

Less:

- Undelivered security holder checks plus outstanding checks from prior months
- Additional principal payments not passed through until the following month
- Liquidations not passed through until the following month
- Prepaid installments
- Guaranty fees owed to Ginnie Mae

= Adjusted bank balance

Less: Amount due security holders

= Overage (Shortage)



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Excess Funds

If an issuer uses the Excess Funds Method involving pools issued prior to July 1, 1980, an Excess Funds Agreement must have been previously executed with Ginnie Mae. After July 1, 1980, the Guaranty or Contractual Agreement for each new pool includes a provision for using excess funds.

Funding P&I Shortfalls
Excess Funds

Ginnie Mae

- Excess funds defined as:
 - Unscheduled recoveries of principal
 - Prepayments

Excess funds for Multifamily pools are defined as follows:

1. Unscheduled recoveries of principal of loans, such as, curtailments, loan payoffs, guarantee benefits and partial and final claim settlements from loan insurance. These amounts received during the current month are not scheduled to be passed through to security holders until the month following receipt by the issuer; and
2. Prepaid P&I installments.



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Corporate Advances Using Excess Funds

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- After July 1, 1980, part of Guaranty or Contractual agreement
- Unapplied funds and service fees
- Pools sharing same custodial account
- Comingling Ginnie Mae I and Ginnie Mae II funds

Corporate Advances Using Excess Funds

In lieu of advancing corporate funds, the issuer may use excess P&I funds attributable to one pool to cover shortages in other pools sharing the same custodial account. Any additional amount still needed once excess funds have been used must come from the issuer's corporate funds.

Unapplied funds and various service fees deposited into the P&I custodial account may also be considered excess funds for purposes of this calculation. These types of funds will further reduce the amount of required corporate advances.

The issuer may use "Excess Funds" from one pool to cover shortfalls in other pools as long as the pools share the same P&I custodial bank account.

Ginnie Mae allows issuers to comingle funds of Ginnie Mae II pools with those of Ginnie Mae I pools. Since payments due to security holders of Ginnie Mae II pools are not due until the date of the ACH debit (usually the 19th), collections applicable to Ginnie Mae II pools may be used to offset corporate advances necessary for Ginnie Mae I pools on the 15th. If this approach is used, issuers must still advance as necessary to cover the full amount of the ACH debit, and Ginnie Mae II amounts required for the ACH debit which have been used to offset Ginnie Mae I advances must be advanced at that time.



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Excess Funds – Ginnie Mae I

Funding P&I Shortfalls
Corporate Advances Using Excess Funds - Ginnie Mae I

Ginnie Mae

P&I Bank balance at negotiable date	\$ X,XXX,XXX
Less:	
Undelivered security holder checks plus outstanding checks from prior months	XX,XXX
Guaranty fees owed to Ginnie Mae	XX,XXX
Adjusted bank balance	\$ X,XXX,XXX
Amount due security holders	\$ X,XXX,XXX
Overage (Shortage)	\$ X,XXX,XXX

P&I Bank balance at negotiable date

Less:

- Undeliverable security holder checks plus outstanding checks from prior months
- Guaranty fees owed to Ginnie Mae

= Adjusted bank balance

Less Amount due security holders

= Overage (shortage)



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CASE STUDY I

Test Of Expected P&I Custodial Account Balance At Cut-off

Pool Number: 11111

Reporting Month: January

+ Prepaid Principal and Interest (Section 1, Item F, Total)	+ \$	0.00
+ Additional Principal Payments (Section 1, Item B-2)	+	0.00
+ Additional Principal Adjustments (Section 1, Line C, Pool Interest)	+	0.00
+ Liquidation Principal (Section 2, Item C)	+	0.00
+ Delinquent Service Fee (From Section 1, Item G, Interest)	+	0.00
+ Service Fee (Section 1, Item H: <u>Enter only if taken after cutoff date</u>)	+	
+ Fixed Installment on Liquidation (Section 1, Item B, FIC)	+	0.00
- Delinquent Principal and Interest (Section 1, Item G, Total)	-	0.00
- Prepaid Service Fee (From Section 1, Item F, Interest)	-	0.00
- Service Fee from Liquidations (Based on last interest installment on 11710E)	-	0.00
= Subtotal (Expected Balance)	= \$	0.00
- Reported P&I Balance (Section 5-B, Item 2)	-	0.00
= Difference: Over/(Short)	= \$	



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CASE STUDY II

Reconciliation of Mortgage Collateral to Securities Outstanding

Pool Number: <u>111111</u>	Reporting Month: <u>January</u>
+ Month End Pool Principal Balance (Section 1, Item D, Pool Principal)	+ \$ <u>21,194,227.17</u>
+ Prepaid Installment Principal (Section 1, Item F, Principal)	+ <u>.00</u>
- Delinquent Installment Principal (Section 1, Item G, Principal)	- <u>.00</u>
- Scheduled Principal (Section 1-A, Item C)	- <u>6,113.31</u>
+ Liquidation Principal Installment (Principal Portion of Last Installment Reported on 11710E)	+ <u>.00</u>
- Additional Principal Installment Adjustments ("Other," Section 2, Item D)	- <u>.00</u>
= Adjusted Pool Principal Balance	= \$ <u>21,188,113.86</u>
- Securities Principal Balance (Section 3, Line D)	- <u>21,188,113.86</u>
= Difference: Over/(Short)	= \$ <u>.00</u>



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CASE STUDY III

Corporate Advances Without Excess Funds

Assumptions:

Issuer has two pools in the same bank account:

Pool #1 needs to pay \$1,000 to security holders. Bank balance for pool is \$1,100.

Pool #2 also needs to pay security holders \$1,000. Bank balance for pool is \$850.

Calculate the additional funds needed by issuer.

	Total amount to be paid to security holders	Total amount of funds on hand	Amount over or (under)	Additional funds needed
Pool #1	\$1,000	\$1,100	\$100	\$0
Pool #2	\$1,000	\$850	(\$150)	\$150
Total	\$2,000	\$1,950	(\$50)	\$150



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CASE STUDY IV

Corporate Advances Using Excess Funds

Assumptions:

Issuer has two pools in the same bank account:

Pool #1 needs to pay \$1,000 to security holders. Bank balance for pool is \$1,100.

Pool #2 also needs to pay security holders \$1,000. Bank balance for pool is \$850.

Calculate the additional funds needed by issuer.

	Total amount to be paid to security holders	Total amount of funds on hand	Amount over or (under)	Additional funds needed
Pool #1	\$1,000	\$1,100	\$100	\$0
Pool #2	\$1,000	\$850	(\$150)	\$150
Total	\$2,000	\$1,950	(\$50)	\$50



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CASE STUDY V

Recovery of Corporate Advances

Assumptions:

Issuer used \$5,000 in excess funds to pay security holders on March 15th. Issuer advances an additional \$2,000 corporate advance to pay security holders on March 15th. Calculate the amount of corporate advances recovered.

Date	Money collected by issuer	Excess funds to be restored	Advance to be recovered
Scenario I			
March 20	\$3,000		
March 21	\$3,000		
March 22	\$2,000		
Scenario II			
March 20	\$6,000		
March 21	\$2,000		



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EXHIBIT 1

Master Agreement for Servicer's Principal and Interest Custodial Account

U.S. Department of Housing and Urban Development
Government National Mortgage Association

OMB Approval No. 2503 - 0017 (exp. 7/31/99)

Public reporting burden for this collection of information is estimated to average 2 minutes per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to the Reports Management Officer, Paperwork Reduction Project (2503-0017), Office of Information Technology, U.S. Department of Housing and Urban Development, Washington, D.C. 20410-3600. This agency may not collect this information, and you are not required to complete this form, unless it displays a currently valid OMB control number.

Do not send this form to the above address.

The information is required by Sec. 308(g) of the National Housing Act or by Ginnie Mae Handbook 5500.1 and .2.

<input type="checkbox"/> Initial	<input type="checkbox"/> Renewal	P & I Bank ID Number(ABA /Federal Routing Number)	Date
Name and Address of Institution (and Branch)(Include full address)		The attached list of Pools is covered by this Agreement	

P&I Custodial Account P&I Disbursement Account

You are hereby authorized and requested to establish a custodial account to be specifically designated " _____ Trustee of Principal and Interest Custodial Account for Various Ginnie Mae Mortgage-Backed Securities Pools or Loan Packages" issued by the Issuer which are designated to use this account as shown on the form HUD-11705 for each securities issue. All deposits made in such account shall be subject to withdrawal therefrom signed by the Issuer named below, and shall also be subject to withdrawal therefrom by the Government National Mortgage Association. No agent of the Issuer or any other party shall be authorized to withdraw funds from the account. You are also authorized to pay immediately to the Government National Mortgage Association at any time upon its written demand, which need not name a specific amount, the entire amount in such account. This demand shall be made in Ginnie Mae's sole discretion.

You are further authorized upon request of the Government National Mortgage Association to refuse to honor any instruments drawn upon such account by parties other than the Government National Mortgage Association and to change the name of the aforesaid account to "Government National Mortgage Association." In no instance shall the funds in the Principal and Interest Custodial Account or Principal and Interest Disbursement Account be used to offset funds which may have been advanced to, or on behalf of, the Issuer or any other entity by the custodian institution.

This agreement is submitted to you in duplicate. Please execute the duplicate copy of the certificate below, acknowledging the existence of this agreement, so that we may present the copy signed by you to the Government National Mortgage Association or its agent.

Name of Issuer	Issuer Number
Signature	Title

The undersigned institution certifies to the Government National Mortgage Association that the account above identified is in existence in this institution under account number _____ and agrees with the Issuer named above and the Government National Mortgage Association to honor demands on such account in the manner provided in the above agreement. The undersigned institution further agrees upon the request of the Government National Mortgage Association to refuse to honor any instruments drawn upon such account by parties other than the Government National Mortgage Association and to change the name of the aforesaid account to "Government National Mortgage Association." This demand shall be made in Ginnie Mae's sole discretion. In no instance shall the funds in the Principal and Interest Custodial Account or Principal and Interest Disbursement Account be used to offset funds which may have been advanced to, or on behalf of, the Issuer or any other entity by the custodian institution. Deposits in this institution are insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration, and this institution meets the requirements specified in the applicable Ginnie Mae Mortgage-Backed Securities Guides.

Name of Institution	By
Title	Date



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Module IIIb – Cash Management

P & I Bank Account Reconciliation

EXHIBIT 2

Bank statement balance at cutoff date	\$ _____
Deposits in transit (total):	+ _____
Outstanding checks (total):	- _____
Adjustments (Explanation required):	- _____
SUBTOTAL (Adjusted bank balance):	= _____
LESS “Total Funds Other than T&I reported in section 3, form HUD 11710D:*	- _____
Unreconciled difference (explain):	= _____

Explanation for “Adjustments” noted above:

Deposits in transit and/or checks outstanding over thirty (30) days (date and amount):

***This figure must equal the sum of Sections 5, Block B-2 and Block B-3 of all the HUD 11710A’s for all pools. If more than one Ginnie Mae P&I account is used, the reconciled balances of all the accounts combined should be reconciled to this amount.**



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EXHIBIT 3

Master Agreement for Servicer's Escrow Custodial Account

U.S. Department of Housing and Urban Development
Government National Mortgage Association

OMB Approval No. 2503 - 0017 (exp. 7/31/99)

Public reporting burden for this collection of information is estimated to average 12 minutes per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. This agency may not collect this information, and you are not required to complete this form, unless it displays a currently valid OMB control number.

The information is required by Sec. 306(g) of the National Housing Act or by Ginnie Mae Handbooks 5500.1 and .2.

<input type="checkbox"/> Initial	<input type="checkbox"/> Renewal	Escrow Bank ID Number (ABA / Federal Routing Number)	Date
----------------------------------	----------------------------------	--	------

Name and Address of Institution (and Branch) (Include full address)	The attached list of Pools is covered by this Agreement
---	---

You are hereby authorized and requested to establish a custodial account to be specifically designated " _____ "

Trustee of Servicer's Escrow Custodial Account for Various Mortgagors, Ginnie Mae Mortgage-Backed Securities" for various pools or loan packages issued by the Issuer which are designated to use this account as shown on the form HUD-11705 for each securities issue. All deposits made in such account shall be subject to withdrawal therefrom signed by the Issuer named below, or by the subcontract servicer named below, and shall also be subject to withdrawal therefrom by the Government National Mortgage Association. No other agent of the Issuer except the named subcontract servicer shall be authorized to withdraw funds from the account. You are also authorized to pay immediately to the Government National Mortgage Association at any time upon its written demand, which need not name a specific amount, the entire amount in such account. This demand shall be made in Ginnie Mae's sole discretion.

You are further authorized upon request of the Government National Mortgage Association to refuse to honor any instrument drawn upon such account by parties other than the Government National Mortgage Association and to change the name of the aforesaid account to "Government National Mortgage Association." In no instance shall the funds in the Escrow Custodial Account be used to offset funds which may have been advanced to, or on behalf of, the Issuer or any other entity by the custodian institution.

This agreement is submitted to you in duplicate. Please execute the duplicate copy of the certificate below, acknowledging the existence of this agreement, so that we may present the copy signed by you to the Government National Mortgage Association or its agent.

If this account is not being used for tax and insurance escrows, please check the appropriate box(es) for which funds are deposited in the account covered by this agreement:

- | | | | |
|--|---|---|---|
| <input type="checkbox"/> Section 203(k) Escrow funds | <input type="checkbox"/> Reserve for Replacement Escrow | <input type="checkbox"/> Operating Deficit Escrow | <input type="checkbox"/> Debt Service Reserve |
| <input type="checkbox"/> Latent Defects Escrow | <input type="checkbox"/> Residual Receipts Escrow | <input type="checkbox"/> Tenant Services Escrow | <input type="checkbox"/> Repairs Escrow |
| <input type="checkbox"/> MIP Escrow | <input type="checkbox"/> Other Escrow (explain) | | |

Name of Subcontract Servicer	Subcontract Servicer Issuer ID No.	Name of Issuer	Issuer ID Number
By (Signature)		By (Signature)	
Title		Title	

The undersigned institution certifies to the Government National Mortgage Association that the account above identified is in existence in this institution under account number _____ and agrees with the Issuer named above and the Government National Mortgage Association to honor demands on such account in the manner provided in the above agreement. The undersigned institution further agrees upon the request of the Government National Mortgage Association to refuse to honor any instruments drawn upon such account by parties other than the Government National Mortgage Association and to change the name of the aforesaid account to "Government National Mortgage Association." This demand shall be made in Ginnie Mae's sole discretion. In no instance shall the funds in the Escrow Custodial Account be used to offset funds which may have been advanced to, or on behalf of, the Issuer or any other entity by the custodian institution. Deposits in this institution are insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration, and this institution meets the requirements specified in the applicable Ginnie Mae Mortgage-Backed Securities Guides.

Name of Institution	By
Title	Date

Previous editions are obsolete; replaces HUD-11720-M

form HUD-11720 (2/98)
ref. Ginnie Mae Handbooks 5500.1 & 5500.2



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Module IIIb – Cash Management

T&I Bank Account Reconciliation

EXHIBIT 4

Bank statement balance at cutoff date	\$ _____
Deposits in transit (total):	+ _____
Outstanding checks (total):	- _____
Adjustments (Explanation required):	- _____
SUBTOTAL (Adjusted bank balance):	= _____
LESS “Total Funds Other than T&I Reported in section 3, form HUD 11710D:*	- _____
Unreconciled difference (explain):	= _____

Explanation for “Adjustments” noted above:

Deposits in transit and/or checks outstanding over thirty (30) days (date and amount):

***This figure must equal the sum of Sections 5, Block B-1 of all the HUD 11710A’s for all pools. If more than one Ginnie Mae P&I account is used, the reconciled balances of all the accounts combined should be reconciled to this amount.**



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Module IIIb – Cash Management

P & I Checklist

- ____ 1. All P&I funds related to a single pool must be in a single P&I account.
- ____ 2. Ginnie Mae I pool funds and Ginnie Mae II pool funds may be placed in the same account.
- ____ 3. Ginnie Mae funds may not be comingled with non-Ginnie Mae funds.
- ____ 4. The internal servicing record P&I book balance must reconcile each month end to the following:
 - Test of Expected P&I;
 - Reconciled bank balance; and
 - Sum of 11710A's Section 5, Block B-2 amounts for all pools.
- ____ 5. P&I accounts must be reconciled by the end of the following month; reconciling items must clear within 30 days from the date of the bank reconciliation.
- ____ 6. The account cannot be interest bearing.
- ____ 7. No overdrafts are permitted, unless a pool advance agreement is in effect. Overdrafts must be funded within one business day.
- ____ 8. No investment activity is permitted.
- ____ 9. Undelivered holder payments and outstanding checks must be remitted to Ginnie Mae within thirty days of the close of the six-month period.
- ____ 10. P&I custodial account must be maintained at a federally insured financial institution that meets Ginnie Mae's bank rating requirements or an approved Federal Home Loan Bank (see page 17 for detailed requirements).
- ____ 11. An executed form HUD 11709 filed with Ginnie Mae is required for each P&I custodial account.
- ____ 12. The reconciled internal servicing record P&I book balance plus the amount reported in form HUD 11710A "Other" Section 5, Block B-3 for all pools should equal the amount reported in Section 3, form HUD 11710D as "Total Funds Other than T&I".



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P & I Disbursement Checklist

- ____ 1. Each issuer ID may use only one P&I disbursement account.
- ____ 2. Ginnie Mae funds may not be comingled with non-Ginnie Mae funds.
- ____ 3. The account should be a zero balance, however, it is acceptable for the issuer to retain a minimum balance or unrecovered corporate advances. After subtracting these amounts, and any outstanding security holder checks, the remaining balance of the P&I disbursement account should be zero.
- ____ 4. P&I disbursement accounts must be reconciled by the end of the following month; reconciling items must clear 30 days from the date of the bank reconciliation.
- ____ 5. The account cannot be interest bearing.
- ____ 6. No overdrafts are permitted, unless a pool advance agreement is in effect. Overdrafts must be funded within one business day.
- ____ 7. Investment activity is not permitted.
- ____ 8. Undelivered holder payments and outstanding checks must remain in the account from which the funds were disbursed until the checks clear or the funds are sent to Ginnie Mae.
- ____ 9. Undelivered holder payments and outstanding checks must be remitted to Ginnie Mae within thirty days of the close of the six-month period.
- ____ 10. P&I custodial account must be maintained at a federally insured financial institution that meets Ginnie Mae's bank rating requirements or an approved Federal Home Loan Bank (see page 17 for detailed requirements).
- ____ 11. An executed form HUD 11709 filed with Ginnie Mae is required for each P&I custodial account.



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Module IIIb – Cash Management

T & I Checklist

- _____ 1. All T&I funds related to a single pool must be in a single T&I account.
- _____ 2. Ginnie Mae I pool funds and Ginnie Mae II pool funds may be placed in the same account.
- _____ 3. Ginnie Mae funds may not be comingled with non-Ginnie Mae funds.
- _____ 4. The internal servicing record T&I book balance must reconcile each month end to the following:
 - sum of reconciled bank balance, and
 - sum of 11710A's Section 5, Block B-1 amounts for all pools.
- _____ 5. T&I accounts must be reconciled by the end of the following month; reconciling items must clear within 30 days from the date of the bank reconciliation.
- _____ 6. The account may be interest bearing if disposition of funds is in accordance with FHA and state law.
- _____ 7. No overdrafts are permitted.
- _____ 8. No investment activity is permitted.
- _____ 9. T&I custodial bank account must be at a Federally insured financial institution or a specified Federal Home Loan Bank. Multi-family pools must meet Ginnie Mae bank rating requirements if the escrow balance is greater than or equal to \$100,000 per loan (see page 17 for detailed requirements).
- _____ 10. An executed form HUD 11720 filed with Ginnie Mae is required for each T&I custodial account.